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SUBJECT: GHANA AT 50: A MIXED ECONOMIC RECORD

REF: A. 05 ACCRA 1679

[1](#)B. 05 ACCRA 658

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[1](#)1. (SBU) Summary: This is the fourth in a series of scene setter cables on Ghana at 50. Ghana can not only boast stability and an emerging democracy (septels), but also two decades of sustained economic growth and modest poverty reduction. However, economic stability is fragile, heavily dependent on continued strong cocoa and gold prices as well as foreign assistance and debt relief. The structural reform agenda remains incomplete and progress on improving social indicators such as child mortality and education has been slow. This state of incomplete transformation undermines confidence in Ghana,s long-term future. End summary.

#### The Economic Story: A Long Recovery

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[1](#)2. (U) Ghana,s economy was relatively stable and prosperous at independence but fell into steady decline starting in the mid-1960s as a result of political infighting, economic mismanagement and a collapse in cocoa prices. Per capita GDP fell by 24 percent from 1970 to 1981, when inflation reached 116 percent. By 1983, the economy was on the brink of collapse. With IMF and World Bank support, Rawlings implemented significant reforms, including removing trade barriers and exchange rate controls. While the reforms caused substantial shocks in some sectors, particularly agriculture and textiles, the overall effect was positive and helped bring about a measure of economic stabilization and recovery. However, a big drop in world cocoa and gold prices hurt growth and, in the face of pending elections, spurred government spending, leading to an increased deficit, falling currency and high inflation at the time Kufuor took office in [1](#)2000.

[1](#)3. (U) The economy has performed well under the Kufuor administration but Ghana,s fundamental vulnerabilities remain. The Kufuor administration has continued the economic stabilization begun under Rawlings but major debt relief, large inflows of donor resources and relatively high cocoa and gold prices have been the keys to the steady improvements in real GDP growth, which in 2004 topped 5% for the first time in a decade and is now estimated at 6.2%. Further debt relief, continued large aid inflows, favorable commodity prices, and \$4 billion in gross annual remittances (note: this includes remittances from individuals as well as NGOs and embassies; individual remittances are estimated at about

\$1.8 billion in 2006) put Ghana in a stronger balance of payments position than at the end of the Rawlings years.

#### Economic Clouds

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14. (U) While Ghana's macroeconomic management has been good, significant problems remain. Ghana is highly vulnerable to price shocks in cocoa, gold, and to a lesser extent, timber (which account for 70% of exports). It remains heavily dependent on foreign inflows of aid and on remittances (which largely go into nonproductive activities, such as housing construction but have probably helped keep the currency relatively stable).

15. (U) There has been little growth in the formal job sector (which accounts for only 10% of employment). Seventy percent of Ghanaian companies are micro-enterprises, with few entrepreneurs possessing the skills, vision or even desire to expand. Financial services are growing but Ghana remains largely a cash society and access to credit is difficult, short term and expensive. Infrastructure to support growth is poor, particularly power generation and water supply.

16. (SBU) Privatization of the remaining state-owned enterprises (telecom and oil refining most notably) is mired in politics and allegations of corruption. There is also significant need for structural change in agriculture, including land reform. The GOG appears uninterested in tackling these and other important but politically difficult economic reforms until after the 2008 election.

#### A Mixed Poverty Record

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17. (U) The national poverty rate has dropped from 52% in 2002 to 35% in 2006 and many social indicators show steady

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improvement over the past few decades. Nonetheless, progress has been generally slow. Per Capita Gross National Income (\$450) in 2005 compared to an average of \$745 for low income sub-Saharan African countries, according to World Bank's 2007 World Development Report. Maternal and infant mortality rates are well below levels in the 1980s but remain high and have not changed in ten years. While access to education has grown, quality is a major challenge. GOG census data show a slight drop in overall adult literacy from 58% in 1984 to 54% in 2000, below average for sub-Saharan Africa. Although overall hunger levels have reduced significantly, food insecurity and malnutrition are problems in some areas, with child malnutrition levels stagnant over the past decade. Guinea Worm infestation has re-emerged while malaria remains endemic. In the past few years, the quality of basic social services has deteriorated.

#### The Dissatisfied Poor

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18. (U) Most Ghanaians reportedly do not feel they have benefited from the country's macroeconomic success, according to several recent studies. According to the Center for Democratic Development's 2005 Afrobarometer survey, 53 percent of respondents thought their standard of living had declined over the previous year, compared to 38 percent in a similar survey in 2002. Respondents in 2005 were significantly more gloomy than in 2002 about their economic future.

19. (SBU) Economic contacts concur with anecdotal evidence suggesting a widening overall income gap. According to Ernest Ayeete, Director of the Institute of Statistical, Social and Economic Research, the north-south income gap reduced in the 1990s, but the nationwide urban-rural gap increased, especially in the north. Poverty reduction was fastest in export-producing rural regions and in Accra, while

much more limited in non-export agricultural areas. Ayeete told Polchief he was disturbed that the growing urban-rural divide is being perceived in northern regions as deliberately discriminatory GOG policy. This income gap, together with growing urbanization and a youthful population (50% of Ghanaians are under age 18), could fuel crime and other social problems.

Comment

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¶10. (SBU) Despite some real accomplishments in democratic and economic development, Ghana at 50 is in many ways a disappointing story of unfulfilled potential. Most Ghanaians are still very poor. The economy has not diversified significantly since independence and is almost as vulnerable to commodity price shocks as it was a decade ago. Corruption, poor governance, and a dominant public sector fuels cynicism. As an example, the government faces substantial criticism for its failure to consult with other parties or parliament about the nature or cost (now put at \$32 million) of Jubilee celebrations. Disorganization, poor implementation and lack of vision have also constrained economic progress. Ernest Ayeete recently summed it up when discussing why the country has not developed more rapidly since independence: &we haven,t quite decided on what to do as a nation8.

¶11. (SBU) As reported ref A, Ghana is still held back by historical legacies of Nkrumahist state-oriented economics, Rawlings-era constitutional compromises, and an in-grained dependency mentality. It is constrained by the strong hold of traditional rulers who control and fight over land, by senior politicians polarized by past grievances, and by the lack of an entrepreneurial tradition. These legacies will probably not prove regime-threatening. However, without significant efforts to tackle these issues in ways that translate macroeconomic stability into accelerated growth and poverty reduction, Ghana is unlikely to reach its goal of achieving middle-income status by 2015.

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